

WESTPAC GENERAL INSURANCE LIMITED

ABN 99 003 719 319

Annual Report

For the year ended 30 September 2019

WESTPAC GENERAL INSURANCE LIMITED

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This financial report covers Westpac General Insurance Limited (the Company) as an individual entity. The financial report is presented in Australian dollars.

Westpac General Insurance Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue by the Directors of the Company on 11 December 2019. The Directors have the power to amend and reissue the financial report. The Company's registered office is:

Level 18, Westpac Place
275 Kent Street
Sydney NSW 2000

WESTPAC GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

The Directors of Westpac General Insurance Limited (the Company) present their report together with the financial statements of the Company for the year ended 30 September 2019.

Directors

The following persons were Directors of the Company during the period since 1 October 2018 and up to the date of this report unless otherwise stated:

Justin Breheny
Helen Conway
Allan Griffiths
Susan Houghton
Yvonne Le Bas (resigned on 1 August 2019)
Kitrina Shanahan (appointed on 1 August 2019)
Lindsay Smartt

Principal activities

The principal activities of the Company during the financial year ended 30 September 2019 were underwriting home and contents and consumer credit insurance.

There have been no significant changes in the nature of the principal activities of the Company during 2019.

Operating and financial review

The net profit attributable to owners of the Company for the year ended 30 September 2019 was \$13,702 thousand (2018: \$60,987 thousand).

The decrease in profit is predominantly as a result of a 37% increase in net claims incurred to \$308,834 thousand (2018: \$226,146 thousand) which reflects higher claims experience, notably in respect of catastrophic events, during the year.

Dividends

Details of dividends paid in respect of the Company for the current financial year are disclosed in Note 24.

Significant changes in state of affairs and events during and since the end of the 2019 financial year

During the course of the year, Westpac reset its wealth strategy and made a number of changes to its wealth business. This resulted in the realignment of the Company into the Consumer division of Westpac from 1 April 2019. This did not have a material financial impact on the Company.

There were no other significant changes in the state of affairs of the Company during the year.

The Directors are not aware of any matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Company, the results of its operations or the state of affairs of the Company in subsequent financial years.

Developments and expected results

Information on likely developments in the operations and the expected results of the operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

Shares or interests

No shares or options were issued or granted by the Company to the Directors during the year ended 30 September 2019.

Indemnities and insurance

Under the Constitution, the ultimate parent entity, Westpac Banking Corporation (Westpac), unless prohibited by statute, indemnifies each of the Directors and Company Secretaries of Westpac and of each of its related bodies corporate (except related bodies corporate listed on a recognised stock exchange), each employee of Westpac or its subsidiaries (except subsidiaries listed on a recognised stock exchange), and each person acting as a responsible manager under an Australian Financial Services Licence of any of Westpac's wholly-owned subsidiaries against every liability (other than a liability for legal costs) incurred by each such person in their capacity as director, company secretary, employee or responsible manager, as the case may be; and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the person becomes involved because of that capacity.

Each of the Directors named in this Directors' report and each of the Company Secretaries has the benefit of this indemnity.

Westpac also executed a deed poll in September 2009 providing indemnification equivalent to that provided under the Westpac Constitution to individuals acting as directors and other statutory officers of wholly-owned subsidiaries of Westpac (including the Company).

Under the September 2009 deed poll, Westpac also agrees to provide directors' and officers' insurance to Directors of Westpac and Directors of Westpac's wholly-owned subsidiaries.

For the year ended 30 September 2019, Westpac and the entities it controls (Westpac Group) has insurance cover which, in certain circumstances, will provide reimbursement for amounts which the Westpac Group or the Company has to pay under the indemnities set out above. That cover is subject to the terms and conditions of the relevant insurance, including but not limited to the limit of the indemnity provided by the insurance. The insurance policies prohibit disclosure of the premium payable and the nature of the liabilities covered.

WESTPAC GENERAL INSURANCE LIMITED

DIRECTORS' REPORT (CONTINUED)

Proceedings on behalf of the Company

No application has been made and no proceedings have been brought or intervened in on behalf of the Company under section 237 of the Corporations Act 2001.

Environmental disclosure

The operations of the Company are not subject to any significant environmental regulation under any law of the Commonwealth of Australia or of any state or territory of Australia. The Company has not incurred any liability (including for rectification costs) under any environmental legislation.

Rounding of amounts

The Company is an entity to which ASIC Corporations Instrument 2016/191 dated 24 March 2016, relating to the rounding of amounts in directors' reports and financial reports, applies.

Pursuant to this Instrument, amounts in this Directors' report and the accompanying financial report have been rounded to the nearest thousand dollars, unless indicated to the contrary.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4 and forms part of this report.

Signed in accordance with a resolution of the Board.

Director



Director

Sydney

11 / 12 /2019



Auditor's Independence Declaration

As lead auditor for the audit of Westpac General Insurance Limited for the year ended 30 September 2019, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'R Balding', with a large, sweeping flourish extending to the right.

R Balding
Partner
PricewaterhouseCoopers

Sydney
11 December 2019

WESTPAC GENERAL INSURANCE LIMITED

Statement of profit or loss and other comprehensive income for the year ended 30 September 2019

	Note	2019 ¹ \$'000	2018 \$'000
Premium revenue		543,665	527,563
Outwards reinsurance premium expense		(54,995)	(51,690)
Net premium revenue		488,670	475,873
Claims expense	5	(363,925)	(236,699)
Reinsurance and other recoveries revenue	5	55,091	10,553
Net claims incurred		(308,834)	(226,146)
Acquisition costs	14	(107,031)	(109,665)
Other underwriting expenses	6	(57,985)	(52,176)
Underwriting expenses		(165,016)	(161,841)
Underwriting result		14,820	87,886
Investment and other income	7	13,917	12,429
Other expenses	8	(9,163)	(13,191)
Profit before income tax		19,574	87,124
Income tax expense	9	(5,872)	(26,137)
Net profit for the year		13,702	60,987
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of Westpac General Insurance Limited		13,702	60,987

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

¹ The Company has adopted AASB 9 and AASB 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

WESTPAC GENERAL INSURANCE LIMITED

Balance sheet as at 30 September 2019

	Note	2019 ¹ \$'000	2018 \$'000
Assets			
Cash and cash equivalents	29(a)	22,525	11,550
Financial assets measured at fair value	10	276,273	260,431
Trade and other receivables	11	341,251	325,858
Reinsurance and other recoveries receivables	12	72,935	41,048
Deferred levies and charges	13	14,419	13,428
Deferred acquisition costs	14	59,013	59,326
Deferred tax assets	15	5,573	3,750
Other assets		195	147
Intangible assets	16	10,066	11,671
Total assets		802,250	727,209
Liabilities			
Trade and other payables	17	74,296	73,416
Reinsurance premium payables		5,219	4,768
Unearned premium liability	18	347,178	332,548
Outstanding claims liability	19	191,439	152,515
Provisions	20	17,129	10,675
Total liabilities		635,261	573,922
Net assets		166,989	153,287
Shareholders' equity			
Share capital	23	31,500	31,500
Retained profits		135,489	121,787
Total shareholders' equity		166,989	153,287

The above balance sheet should be read in conjunction with the accompanying notes.

¹ The Company has adopted AASB 9 and AASB 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

WESTPAC GENERAL INSURANCE LIMITED

Statement of changes in equity for the year ended 30 September 2019

	Note	Share capital \$'000	Retained profits \$'000	Total \$'000
Balance at 1 October 2017		31,500	119,800	151,300
Net profit for the year		-	60,987	60,987
Net other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	60,987	60,987
Transaction in capacity as equity holders				
Dividends on ordinary shares	24	-	(59,000)	(59,000)
Balance at 30 September 2018		31,500	121,787	153,287
Impact of adoption of new accounting standards ¹		-	-	-
Restated opening balance		31,500	121,787	153,287
Net profit for the year		-	13,702	13,702
Net other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	13,702	13,702
Transaction in capacity as equity holders				
Ordinary shares issued		23,000	-	23,000
Share buy back		(23,000)	-	(23,000)
Dividends on ordinary shares	24	-	-	-
Balance at 30 September 2019		31,500	135,489	166,989

The above statement of changes in equity should be read in conjunction with the accompanying notes.

¹ The Company has adopted AASB 9 and AASB 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

WESTPAC GENERAL INSURANCE LIMITED

Cash flow statement for the year ended 30 September 2019

	Note	2019 ¹ \$'000	2018 \$'000
Cash flows from operating activities			
Premiums received		542,621	516,083
Reinsurance and other recoveries received		23,204	5,628
Claims paid		(325,001)	(250,170)
Outward reinsurance premiums paid		(54,544)	(51,770)
Interest received	7	126	157
Fee income and other income received		6,829	6,234
Expenses paid		(164,578)	(156,037)
Payments to head entity under tax funding agreement		(9,083)	(30,197)
Net cash provided by/(used in) operating activities	29(b)	19,574	39,928
Cash flows from investing activities			
Proceeds from financial assets measured at fair value	10	268,900	276,200
Payments for financial assets measured at fair value	10	(277,499)	(258,200)
Net cash provided by/(used in) investing activities		(8,599)	18,000
Cash flows from financing activities			
Proceeds from share issue		23,000	-
Payment for share buy back		(23,000)	-
Payment of dividends	24	-	(59,000)
Net cash provided by/(used in) financing activities	29(c)	-	(59,000)
Net increase/(decrease) in cash and cash equivalents		10,975	(1,072)
Cash and cash equivalents as at beginning of the year		11,550	12,622
Cash and cash equivalents as at end of the year	29(a)	22,525	11,550

The above cash flow statement should be read in conjunction with the accompanying notes. Details of the reconciliation of net cash provided by/(used in) operating activities to net profit are provided in Note 29.

¹ The Company has adopted AASB 9 and AASB 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Financial statements preparation

a. Basis of accounting

General

Westpac General Insurance Limited (the Company) is a for-profit entity for the purpose of preparing this financial report.

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board (AASB), and the Corporations Act 2001.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and financial liabilities measured at fair value through profit or loss.

Comparative revisions

Comparative information has been revised where appropriate to conform to changes in presentation in the current year and to enhance comparability.

Standards adopted during the year ended 30 September 2019

AASB 9 Financial Instruments (December 2014) (AASB 9)

The Company adopted AASB 9 on 1 October 2018. The adoption of AASB 9 has been applied retrospectively by adjusting the opening balance sheet at 1 October 2018, with no restatement of comparatives as permitted by the standard.

Impairment

AASB 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the incurred loss model under AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) which only recognised impairment if there was objective evidence that a loss had been incurred. The revised impairment model applies to all financial assets at amortised cost.

Classification and measurement

AASB 9 replaced the classification and measurement model in AASB 139 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument represents solely payment of principal and interest (SPPI).

The accounting policies for the classification and measurement of financial assets and financial liabilities are located in the relevant notes to the financial statements for financial assets and financial liabilities.

The adoption of AASB 9 has had no material impact on the Company.

AASB 15 Revenue from Contracts with Customers (AASB 15)

The Company adopted AASB 15 on 1 October 2018, with no restatement of comparatives as permitted by the standard. It replaced AASB 118 Revenue and related interpretations and applies to all contracts with customers, except leases, financial instruments and insurance contracts.

The adoption of AASB 15 has had no material impact on the Company.

Functional and presentational currency

The financial statements are presented in Australian dollars which is the Company's functional and presentation currency. The functional currency is the main currency of the economy it operates in.

Insurance contracts

All of the insurance products offered or utilised by the Company meet the definition of insurance contracts under AASB 1023 General Insurance Contracts (AASB 1023), and are accounted for and reported in accordance with this standard. These products do not contain embedded derivatives or deposits that are required to be unbundled.

Insurance contracts that meet the definition of financial guarantee products are accounted for as insurance contracts under AASB 1023, rather than as financial instruments under AASB 139 Financial Instruments: Recognition and Measurement.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

b. Revenue recognition

(i) Premium

Premium revenue comprises premiums from direct general insurance business which includes amounts charged to the policyholder excluding amounts collected on behalf of third parties, principally indirect taxes.

The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premiums are treated as earned from the date of attachment of risk. The pattern of recognition over the policy or indemnity periods is based on the incidence of risk attaching to the policies underwritten.

Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

The proportion of premium received or receivable not earned in the income statement at the reporting date is recognised in the balance sheet as an unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

(ii) Investment income

Dividends, trust distributions and interest income are recognised as they accrue or are receivable. The profit or loss on disposal of investments is brought to account at the date of the contract for sale. Unrealised gains or losses on investments revalued at year end are taken to the statement of profit or loss and other comprehensive income at that date.

Interest income from bank accounts is recognised on an accruals basis using the effective interest rate method.

(iii) Unexpired risk liability

At each reporting date the Company assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test (LAT). Although there is more than one class of business, for the purposes of conducting the LAT, all policies within the Company are treated as a single group of contracts subject to broadly similar risks as these are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims and expenses plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

Being a test of adequacy, the LAT uses a probability of sufficiency that is set to highlight deficiencies in product pricing following an analysis of the Company's profit margins that equate to the Company's cost of capital.

The probability of sufficiency for outstanding claims liabilities is set at a level that the Company considers to be appropriate to cover the Company's claims obligations having regard to the prevailing market environment and prudent industry practice.

Results of the LAT are outlined at Note 18(d).

(iv) Reinsurance claim recoveries

Reinsurance claim recoveries are recognised as revenue for claims incurred, reported claims not yet paid, claims incurred but not reported, claims incurred but not enough reported and unexpired risk liabilities. Recoveries receivables are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

c. Expense recognition

(i) Claims

Claims incurred expense and liabilities for outstanding claims are recognised in respect of direct insurance business. The liability covers claims incurred but not yet paid, incurred but not reported, claims incurred but not enough reported and the anticipated direct and indirect costs of settling those claims.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

Claims outstanding are assessed by reviewing individual claim files and estimating un-notified claims and settlement costs using statistics based on past experience and trends. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims may not be paid in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period of settlement such as normal inflation and "superimposed inflation". Superimposed inflation arises from non-economic factors such as developments of legal precedent. The expected future payments are then discounted to a present value at the reporting date using risk free rates. A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

The details of rates applied are included in Note 4(a).

(ii) Outwards reinsurance premium

Premium ceded to reinsurers is recognised as an expense in the statement of profit or loss and other comprehensive income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of incidence of risk ceded. Accordingly, a portion of outward reinsurance premium is treated as a prepayment and presented as deferred reinsurance expense on the balance sheet at the reporting date.

Unpaid reinsurance premium at the reporting date is shown as reinsurance premium payables.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

c. Expense recognition (continued)

(iii) Levies and charges

Levies and charges such as emergency services levies are expensed on the same basis as the recognition of premium revenue. The portion relating to unearned premium is recorded as a prepayment and presented as deferred levies and charges on the balance sheet.

(iv) Impairment charges

As comparatives have not been restated upon the adoption of AASB 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 32. The accounting policy applied in 2019 is as follows.

Impairment charges are based on an expected loss model which measures the difference between the current carrying amount and the present value of expected future cash flows taking into account past experience, current conditions and multiple probability-weighted macroeconomic scenarios for reasonably supportable future economic conditions.

Impairment charges are recognised in the statement of profit or loss and other comprehensive income, with a corresponding amount recognised as a reduction of the carrying value of the financial asset through an offsetting provision account.

(v) Other expenses

Other expenses are recognised in the statement of profit or loss and other comprehensive income when the liability is established.

d. Income tax

The Company is part of a tax consolidated group, of which Westpac Banking Corporation (Westpac) is the head entity. As a consequence of tax consolidation accounting, the Company does not recognise any current tax payable balances in its own financial statements, unless the head entity is in default of its obligations, or a default is probable under the tax consolidation legislation, or the tax amounts relate to taxable income incurred prior to the implementation of the tax consolidation regime. Amounts payable or receivable under a tax funding agreement with the head entity are recognised in accordance with the terms and conditions of the agreement as tax-related amounts receivable or payable. Expenses and revenues arising under this agreement are recognised as income tax (expense)/revenue.

The Company has entered into tax funding and tax sharing arrangements with Westpac. Under the terms of the tax funding agreement, the Company reimburses Westpac for any current tax payable by Westpac in respect of the Company's activities. The Company will also be reimbursed by Westpac for any reduction in current tax payable by Westpac in respect of the Company's activities. The reimbursements are payable at the same time as the associated income tax liability falls due and have therefore been recognised as a current tax-related payable by the Company. In the opinion of management, the tax sharing agreement is a valid agreement under the tax consolidation legislation and limits the joint and several liability of the Company in the case of a default by Westpac.

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income. Current tax is the tax payable for the year using enacted or substantively enacted tax rates and laws for each jurisdiction. Current tax also includes adjustments to tax payable for previous years.

Deferred tax accounts for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their values for taxation purposes. Deferred tax is determined using the enacted or substantively enacted tax rates and laws for each jurisdiction which are expected to apply when the assets will be realised or the liabilities settled. Deferred tax assets and liabilities have been offset where they relate to the same taxation authority, and where there is a legal right and intention to settle on a net basis. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available to utilise the assets.

Deferred tax is not recognised for temporary differences where the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable profit or loss.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

e. Assets

(i) Financial assets

Recognition

Purchases and sales of regular way financial assets, except for receivables, are recognised on trade-date; the date on which the Company commits to purchase or sell the asset.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Company has either transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full under a 'pass through' arrangement and transferred substantially all the risks and rewards of ownership.

Classification and measurement

As comparatives have not been restated upon the adoption of AASB 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 32. The accounting policy applied in 2019 is as follows.

The Company classifies its financial assets into the following categories: cash and cash equivalents, financial assets measured at fair value, trade and other receivables, reinsurance and other recoveries receivable and other assets.

Financial assets measured at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Financial assets backing insurance liabilities

The Company has determined that financial assets held to back insurance liabilities are designated at fair value through profit or loss. As part of its investment strategy, the Company actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from insurance liabilities.

Financial assets not backing insurance liabilities

The Company has determined that financial assets held to back the shareholders' funds are designated at fair value through profit or loss.

The accounting policy for each category of financial asset mentioned above and the determination of its fair value is set out below in the note for the relevant item.

(a) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents includes deposits at call and managed cash which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

For the current and previous financial years, the cash and cash equivalents of the Company consists solely of cash on deposit with banks and other financial institutions.

(b) Financial assets measured at fair value

Financial assets measured at fair value are composed of:

- Financial assets held for trading or those acquired principally for the purpose of selling in the short term with the intention of making a profit; and
- Financial assets designated at fair value through profit or loss at inception are those that are not held for trading purposes but may be sold when the need arises. These include investments in unlisted unit trusts which are managed and their performance evaluated on a fair value basis in accordance with the Company's investment strategy.

Financial assets measured at fair value are subsequently carried at fair value. Gains and losses arising from changes in the fair value of financial assets measured at fair value, including interest and dividend income, are included in the statement of profit or loss and other comprehensive income in the period in which they arise.

(c) Trade and other receivables

Receivables (including amounts due from related entities) are recognised initially at fair value and subsequently measured at amortised cost, less provision for expected credit losses (in 2019 based on AASB 9) or provision for impairment losses (prior to 2019 based on AASB 139). Trade and other receivables are presented as current assets unless payment is not due within 12 months from the reporting date.

(d) Provision for expected credit losses

As comparatives have not been restated upon the adoption of AASB 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 32. The accounting policy applied in 2019 is as follows.

Impairment under AASB 9 applies to all financial assets at amortised cost.

The expected credit losses for receivables, amounts due from related entities and other financial assets under AASB 9, are recognised as a reduction of the carrying value of the financial asset through an offsetting provision account.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

e. Assets (continued)

(i) Financial assets (continued)

(d) Provision for expected credit losses (continued)

Measurement

The provision for expected credit losses (ECL) is a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

For assets with low credit risk or where credit risk has not significantly increased, credit losses are limited to those within the next 12 months. For assets where credit risk has significantly increased, expected credit losses are those across the assets' lifetime. For assets where there is evidence of current impairment, incurred credit losses are recognised in addition to the expected credit losses previously described.

(ii) Non-financial assets

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets, other than deferred tax assets, are reviewed as at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. With the exception of goodwill, for which impairment losses cannot be reversed, where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment losses and reversals of impairment losses are recognised in profit or loss.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(a) Deferred acquisition costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of profit or loss and other comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

(b) Finite life intangible assets

Finite life intangibles including computer software are recognised initially at cost and subsequently at amortised cost less any impairment.

Intangible assets relating to program development costs for the Allianz arrangement, are stated at cost less accumulated amortisation and impairment. These costs are being amortised over 10 years which reflects the 10 year contractual arrangement with Allianz.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

f. Liabilities

(i) Financial liabilities

Recognition

Financial liabilities are recognised when an obligation arises.

Derecognition

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Classification and measurement

The accounting policy for classification and measurement has not changed with the adoption of AASB 9. The accounting policy applied in 2019 is as follows.

The Company classifies financial liabilities into the following categories: trade and other payables, reinsurance premiums payables and outstanding claims liability.

Financial liabilities are measured at amortised cost if they are not held for trading or designated at fair value through profit or loss otherwise they are measured at fair value through statement of profit or loss and other comprehensive income.

Financial liabilities measured at fair value through profit or loss are recognised initially at fair value. All other financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

The accounting policy for each category of financial liability mentioned above and the determination of its fair value is set out below in the note for the relevant item.

(a) Trade and other payables

Trade and other payables (including amounts due to related entities) represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within normal credit terms. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(b) Provisions

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is likely to be necessary to settle the obligation and can be reliably estimated.

g. Shareholders' equity

Shareholders' equity consists of share capital and reserves. Ordinary shares are recognised at the amount paid up per ordinary share net of directly attributable issue costs. Reserves consist of retained earnings and other reserves.

h. Goods and Services Tax (GST)

The Company is part of a GST consolidated group, of which Westpac is the head entity. Any GST payable or recoverable is presented on the balance sheet as a net payable to or receivable from Westpac.

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not deemed recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are recognised inclusive of GST.

Cash flows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are ultimately recoverable from, or payable to the ATO, are presented as operating cash flows.

Commitments are disclosed net of the amount of GST ultimately recoverable from, or payable to, the ATO.

i. Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the outflow of economic resources is remote.

j. Offsetting

Financial assets and liabilities are presented net in the balance sheet when the Company has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

k. Rounding of amounts

All amounts have been rounded in accordance with ASIC Corporation (Rounding in Financial/Directors' Reports) Instrument 2016/191, to the nearest thousand dollars, unless otherwise stated.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

I. Future developments in accounting standards

The following new standards and interpretations which may have a material impact on the Company have been issued but are not yet effective, and unless otherwise stated, have not been early adopted by the Company:

(i) AASB 17 Insurance Contracts

AASB 17 *Insurance Contracts* (AASB 17) was issued on 19 July 2017 and will be effective for the 30 September 2022 year end unless early adopted. This will replace AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts*. The main changes under the standard are:

- the scope of the standard may result in some contracts that are currently "unbundled", i.e. accounted for separately as insurance and investment contracts being required to be "bundled" and accounted for as an insurance contract;
- portfolios of contracts (with similar risks which are managed together) will be required to be disaggregated to a more granular level by both the age of a contract and the likelihood of the contract being onerous in order to determine the recognition of profit over the contract period (i.e. the contractual service margin). The contractual service margin uses a different basis to recognise profit to the current Margin on Services approach for life insurance and therefore the pattern of profit recognition is likely to differ;
- risk adjustments, which reflect uncertainties in the amount and timing of future cash flows, are required for both general and life insurance contracts rather than just general insurance contracts under the current accounting standards;
- the contract boundary, which is the period over which profit is recognised, differs and is determined based on the ability to compel the policyholder to pay premiums or the substantive obligation to provide coverage/services. For some general insurance contracts (e.g. some lender mortgage insurance and reinsurance contracts) this may result in the contract boundary being longer. For life insurance, in particular term renewable contracts, the contract boundary is expected to be shorter. Both will be impacted by different patterns of profit recognition compared to the current standards;
- a narrower definition of what acquisition costs may be deferred;
- an election to recognise changes in assumptions regarding discount rate in other comprehensive income rather than in profit and loss;
- an election to recognise changes in the fair value of assets supporting policy liabilities in other comprehensive income rather than through profit and loss;
- reinsurance contracts and the associated liability are to be determined separately to the gross contract liability and may have different contract boundaries; and
- additional disclosure requirements.

The standard is expected to result in a reduction in the level of deferred acquisition costs, however the quantum of this and the profit and loss impacts to the Company are not yet practicable to determine.

On 26 June 2019, the IASB issued an exposure draft proposing a number of amendments to the insurance contracts standard. If approved, these amendments would allow entities to:

- defer acquisition costs for anticipated renewals outside of the initial contract boundary; and
- recognise a gain in the profit or loss for reinsurance contracts, to offset losses from onerous contracts on initial recognition (to the extent the reinsurance contracts held covers the losses of each contract on a proportionate basis).

In addition, the effective date of the standard would be deferred by one year to be applicable to the Company for the 30 September 2023 financial year.

(ii) AASB 16 Leases

AASB 16 *Leases* (AASB 16) was issued on 23 February 2016 and will be effective for the 30 September 2020 financial year. The standard will not result in significant changes for lessor accounting. The main changes under the standard are:

- all operating leases of greater than 12 months duration will be required to be presented on balance sheet by the lessee as a right-of-use asset and lease liability. The asset and liability will initially be measured at the present value of non-cancellable lease payments and payments to be made in optional periods where it is reasonably certain that the option will be exercised; and
- all leases on balance sheet will give rise to a combination of interest expense on the lease liability and depreciation of the right-of-use asset.

Alternative methods of calculating the right-of-use asset are allowed under AASB 16 which impact the size of the transition adjustment.

The application of AASB 16 will not have an impact on the Company as the Company has no leasing arrangements.

Note 2. Critical accounting assumptions and estimates

Applying the Company's accounting policies require the use of judgement, assumptions, and estimates which impact the financial information.

The significant assumptions and estimates used are actuarial derived liabilities, which are described in Note 3 and Note 4. Estimates and assumptions have also been made in relation to unclosed business, unearned premium liability, intangible asset, deferred acquisition costs (DAC) and the LAT in Note 18(d). This includes amortisation period, upfront costs and fees to be included and products over which the DAC applies. The amortisation period was determined by considering the earning pattern of premium income.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3. Actuarial methods

(a) *The ultimate liability arising from claims made under insurance contracts*

The Company writes two classes of general insurance business; home and contents and consumer credit. For the purposes of claims assumptions, the majority of business is considered as being of a short tail nature. Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported (IBNR) to the Company. The estimated cost of claims includes direct expenses to be incurred in the settling of claims. The outstanding claims provision comprises the central estimate and a risk margin which is added to the central estimate to achieve a desired probability of sufficiency. The outstanding claim provision is discounted to reflect the time value of money. A central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. A risk margin is added to the central estimate of outstanding claims in order to increase the probability that estimates will be adequate.

(b) *Central estimates*

Central estimates for each class of business are derived from analysis of the results of several different actuarial models. These include projection of:

- ultimate numbers of claims;
- payments per claim incurred;
- case estimates;
- reporting patterns; and
- loss ratios.

Projections are based on both historical experience and external benchmarks where relevant.

Other considerations include:

- changes in the Company's process which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- changes in the product benefits;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business; and
- the impact of large losses.

Claims inflation is incorporated into the resulting projected payments, to allow for both general economic inflation as well as any superimposed inflation detected in the modelling of payments experience. Superimposed inflation arises from non-economic factors such as developments of legal precedent.

Central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made for the amounts recoverable from reinsurers. Projected payments are discounted to allow for the time value of money.

(c) *Risk margin*

The determination of the appropriate level of risk margin takes into account each class of business and the uncertainty or variability of the future claim payments.

There is more than one class of business and therefore the overall risk margin is lower than the sum of the margins for each class. This reduction is called the diversification benefit. It arises from the understanding that conditions or events which result in higher claims for one class do not always result in similarly high claims for all classes.

The measurement of variability uses techniques similar to those used in determining the central estimate. These techniques determine a range of possible outcomes of ultimate payments and assign likelihood to outcomes at different levels. The use of a range of outcomes allows a determination of the risk margin required to provide an estimate at a given probability of sufficiency.

(d) *Assets arising from reinsurance contracts*

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 4. Actuarial assumptions

(a) Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liabilities:

	2019 Home and contents	2019 Consumer credit insurance	2018 Home and contents	2018 Consumer credit insurance
Inflation rate	2.5% p.a.	N/A	2.5% p.a.	N/A
Superimposed inflation rate	2.9% p.a.	N/A	2.9% p.a.	N/A
Discount rate	0.8% p.a.	0.8% p.a.	1.9% p.a.	2.0% p.a.
Claim handling expense rate	7.0%	7.0%	7.0%	7.0%
Risk margin	7.8%	11.1%	8.2%	11.3%
Average weighted term to settlement from reporting date (years)	0.86	0.80	0.75	0.73

(b) Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

(i) Inflation rate

Insurance costs are subject to inflationary pressures over time.

For the home and contents class, claim costs are related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. It is therefore expected that these costs will increase at a level between appropriate Consumer Price Index indices and wages inflation. The property class uses a combination of actuarial methods. One method applies explicit inflation assumptions whilst the other method implicitly includes inflation at historical levels.

For the consumer credit classes, while inflation rate is not applicable, claims costs are related to the movement in the average loan balance. Therefore, an adjustment is applied to these classes to inflate historical claims based on the movement in the average loan balance of the book.

(ii) Superimposed inflation rate

Superimposed inflation relates to claims inflation in excess of the general economic inflation due to external environment impacts. An allowance for superimposed inflation is applied based on historical levels of superimposed inflation in the portfolio.

(iii) Discount rate

The outstanding claims liability is discounted at a rate equivalent to that inherent in a portfolio of risk free Commonwealth Government fixed interest securities with coupon and redemption cash flows exactly matching the projected inflated claim cash flows.

(iv) Claims handling expense rate

An estimate of outstanding claims liabilities will typically incorporate an allowance for the future cost of administering the claims. This allowance is determined after analysing claim related expenses incurred by the classes of business and is expressed in proportion to the gross claim payments.

(v) Risk margin

The assumptions regarding uncertainty are applied to the net central estimates (including the expense allowance) in order to arrive at a net provision that is intended to provide a probability of sufficiency of 80% (2018: 80%).

(vi) Average weighted term to settlement

The average weighted term to payment is calculated separately by class of business and is based on historic settlement patterns.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 4. Actuarial assumptions (continued)

(c) Sensitivity analysis – insurance contracts

The Company conducts sensitivity analysis to quantify the exposure to the risk of changes in the underlying assumptions used in the financial statements. The table below describes how a change in each assumption will affect insurance liabilities:

Impact of change in assumptions		Profit/(loss)		
30 September 2019	Movement in variable	Gross of reinsurance \$'000	Net of reinsurance \$'000	Equity \$'000
Direct business				
Inflation rate	+100 basis points p.a.	(87)	(87)	(87)
	-100 basis points p.a.	87	87	87
Discount rate	+100 basis points p.a.	772	695	695
	-100 basis points p.a.	(808)	(726)	(726)
Claims handling expense rate	+100 basis points p.a.	(1,161)	(1,167)	(1,167)
	-100 basis points p.a.	1,161	1,167	1,167
Risk margin	+100 basis points p.a.	(1,139)	(832)	(832)
	-100 basis points p.a.	1,139	832	832
Average weighted term to settlement (years)	+0.5 years	(2,549)	(1,827)	(1,827)
	-0.5 years	2,493	1,786	1,786

Impact of change in assumptions		Profit/(loss)		
30 September 2018	Movement in variable	Gross of reinsurance \$'000	Net of reinsurance \$'000	Equity \$'000
Direct business				
Inflation rate	+100 basis points p.a.	(74)	(74)	(74)
	-100 basis points p.a.	74	74	74
Discount rate	+100 basis points p.a.	697	676	676
	-100 basis points p.a.	(724)	(702)	(702)
Claims handling expense rate	+100 basis points p.a.	(916)	(900)	(900)
	-100 basis points p.a.	916	900	900
Risk margin	+100 basis points p.a.	(879)	(740)	(740)
	-100 basis points p.a.	879	740	740
Average weighted term to settlement (years)	+0.5 years	(1,440)	(1,161)	(1,161)
	-0.5 years	1,414	1,140	1,140

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 5. Net claims incurred

	2019 Current year \$'000	2019 Prior years \$'000	2019 Total \$'000	2018 Current year \$'000	2018 Prior years \$'000	2018 Total \$'000
Gross claims incurred and related expenses - undiscounted	376,343	(13,339)	363,004	239,604	(2,455)	237,149
Discount movement	(575)	1,496	921	(1,064)	614	(450)
Gross claims incurred and related expenses - discounted	375,768	(11,843)	363,925	238,540	(1,841)	236,699
Reinsurance and other recoveries						
Reinsurance and other recoveries - undiscounted	(57,438)	2,387	(55,051)	(11,630)	1,022	(10,608)
Discount movement	96	(136)	(40)	122	(67)	55
Reinsurance and other recoveries - discounted	(57,342)	2,251	(55,091)	(11,508)	955	(10,553)
Net claims incurred	318,426	(9,592)	308,834	227,032	(886)	226,146

Current year amounts relate to claims occurring in the current financial year. Prior period amounts relate to a reassessment of the claims occurring in all previous financial years.

Note 6. Other underwriting expenses

	2019 \$'000	2018 \$'000
Levies and charges	23,840	20,602
Amortisation of intangible assets	1,605	1,605
Administration expenses	32,540	29,969
Total other underwriting expenses	57,985	52,176

Note 7. Investment and other income

	2019 \$'000	2018 \$'000
Investment income		
Interest - third parties	2,033	2,154
Interest - ultimate parent entity	126	157
Distributions from financial assets measured at fair value	4,879	4,302
Net fair value gains on financial assets measured at fair value	234	(383)
Total investment income	7,272	6,230
Other income		
Third parties	5,161	4,340
Other related entities	1,484	1,859
Total other income	6,645	6,199
Total investment and other income	13,917	12,429

Other income includes earnings received from the distribution of third party products.

Note 8. Other expenses

	2019 \$'000	2018 \$'000
Remediation expenses	2,888	5,747
Sourced product expenses	4,218	6,315
Other	2,057	1,129
Total other expenses	9,163	13,191

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 9. Income tax

The income tax expense for the year reconciles to the profit before income tax as follows:

	2019	2018
	\$'000	\$'000
Profit before income tax	19,574	87,124
Tax at the Australian company tax rate of 30%	5,872	26,137
Total income tax expense	5,872	26,137

	2019	2018
	\$'000	\$'000
Income tax analysis		
Income tax expense comprises:		
Current income tax	7,695	28,657
Deferred income tax	(1,823)	(2,520)
Total income tax expense	5,872	26,137

	2019	2018
	\$'000	\$'000
(i) Deferred income tax (credit)/expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	(2,304)	(3,076)
Increase in deferred tax liabilities	481	556
Total deferred income tax (benefit)/expense	(1,823)	(2,520)

The effective tax rate was 30% in 30 September 2019 (2018: 30%).

Note 10. Financial assets measured at fair value

	2019	2018
	\$'000	\$'000
Balance at beginning of the year	260,431	272,356
Additions	277,499	258,200
Interest and distributions reinvested	7,009	6,458
Disposals	(268,900)	(276,200)
Unrealised gains/(losses)	234	(383)
Balance at end of the year	276,273	260,431
Held as investments in:		
FirstRate Evergreen Deposit Account	107,274	105,240
Pendal Short Term Income Fund	111,730	143,408
Pendal Managed Cash Fund	57,269	11,783

The Pendal Short Term Income Fund and the Pendal Managed Cash Fund that the Company invests into, are considered to be structured entities for the purposes of AASB 12 Disclosure of Interests in Other Entities. A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity (for example, when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements). Structured entities are generally created to achieve a specific and well defined objective with restrictions over their ongoing activities. The Company enters into transactions with unconsolidated structured entities to facilitate specific investment opportunities and its interest in the structured entity comprises of any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity. This includes the holding of units in unlisted funds.

The objective of the Pendal Short Term Income Fund is to seek near term gains and invests primarily in floating rate notes, discount securities and cash deposits. The objective of the Pendal Managed Cash Fund is to seek near term gains and invests primarily in cash and short term fixed interest securities. The funds issue units which are redeemable at the holder's option and entitles the holder to a proportional share of the fund's net assets.

The carrying value of the investment in the funds represents the Company's maximum exposure to loss and is approximately 29.3% (2018: 16%) of the total funds under management in the Pendal Short Term Income Fund and 1.8% (2018: 0.3%) of the total funds under management in the Pendal Managed Cash Fund. The Company does not provide any material financial or other support to the unconsolidated structured entity.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 11. Trade and other receivables

	2019	2018
	\$'000	\$'000
Premium receivable	340,473	324,799
Trade receivables	541	687
Amounts due from:		
Other related entities	237	372
Total trade and other receivables	341,251	325,858

Note 12. Reinsurance and other recoveries receivables

	2019	2018
	\$'000	\$'000
Expected reinsurance and other recoveries – undiscounted:		
Reinsurance recoveries on claims paid - undiscounted	9,966	3,808
Reinsurance recoveries on outstanding claims - undiscounted	46,354	24,033
Other recoveries on outstanding claims - undiscounted	16,797	13,430
	73,117	41,271
Discount to present value	(182)	(223)
Total reinsurance and other recoveries receivables	72,935	41,048
Reinsurance and other recoveries receivables on incurred claims - discounted	62,969	37,240
Reinsurance and other recoveries receivables on paid claims - discounted	9,966	3,808
Expected reinsurance and other recoveries – discounted	72,935	41,048
Reinsurance and other recoveries		
Current	67,002	32,354
Non-current	5,933	8,694
Total reinsurance and other recoveries receivables	72,935	41,048

The minimum rated reinsurer's Standard & Poor's credit rating relating to reinsurance treaties was A- or greater in the current year (2018: A-).

Note 13. Deferred levies and charges

	2019	2018
	\$'000	\$'000
Balance at beginning of the year	13,428	10,314
Deferral of levies and charges in the period	24,831	23,716
Amortisation charged to statement of profit or loss and other comprehensive income	(23,840)	(20,602)
Balance at end of the year	14,419	13,428

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Deferred acquisition costs

	2019 \$'000	2018 \$'000
Balance at beginning of the year	59,326	64,213
Acquisition costs deferred	106,718	104,778
Amortisation charged to statement of profit or loss and other comprehensive income	(107,031)	(109,665)
Balance at end of the year	59,013	59,326
Deferred acquisition costs to be realised within 12 months	55,229	53,211
Deferred acquisition costs to be realised after more than 12 months	3,784	6,115
Total deferred acquisition costs	59,013	59,326

Note 15. Deferred tax assets

The balance comprises temporary differences attributable to:

	Note	2019 \$'000	2018 \$'000
Amounts recognised in the statement of profit or loss and other comprehensive income			
Provisions		7,630	5,326
Gross deferred tax assets		7,630	5,326
Set-off deferred tax assets and deferred tax liabilities	21	(2,057)	(1,576)
Net deferred tax assets		5,573	3,750

Movements	Provisions \$'000	Total \$'000
Balance at 1 October 2017	2,250	2,250
Recognised in the statement of profit or loss and other comprehensive income	3,076	3,076
Balance at 30 September 2018	5,326	5,326
Recognised in the statement of profit or loss and other comprehensive income	2,304	2,304
Balance at 30 September 2019	7,630	7,630

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Intangible assets

	2019	2018
	\$'000	\$'000
Program development costs	16,048	16,048
Less: Accumulated amortisation	(5,982)	(4,377)
Total intangible assets	10,066	11,671

A reconciliation of the carrying amount of intangible assets at the beginning and end of the year is set out below:

	Program development costs \$'000	Total \$'000
Balance at 1 October 2017	13,276	13,276
Amortisation	(1,605)	(1,605)
Balance at 30 September 2018	11,671	11,671
Amortisation	(1,605)	(1,605)
Balance at 30 September 2019	10,066	10,066

Note 17. Trade and other payables

	2019	2018
	\$'000	\$'000
Trade payables	15,234	16,623
Amounts due to:		
Ultimate parent entity - current tax liabilities	617	2,005
Ultimate parent entity - other	13,092	11,146
Other related entities	45,353	43,642
Total trade and other payables	74,296	73,416

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 18. Unearned premium liability

	2019	2018
	\$'000	\$'000
(a) Unearned premium		
Balance at beginning of the year	332,548	330,455
Deferral of premiums on contracts written in the current period	331,613	309,577
Earnings of premiums written in previous period	(316,983)	(307,484)
Balance at end of the year	347,178	332,548
Current	337,233	316,983
Non-current	9,945	15,565
Total unearned premium liability as at 30 September	347,178	332,548
(b) Net unearned premium liability		
Unearned premium (net of reinsurance)	347,178	332,548
Deferred acquisition costs	(59,013)	(59,326)
Net unearned premium liability as at 30 September	288,165	273,222
(c) Expected present value of future cash flows for future claims including risk margin		
Discounted central estimate (net of reinsurance)	168,433	158,891
Risk and expense margins	86,518	78,992
Expected present value of future cash flows for future claims including risk margin	254,951	237,883

(d) Liability adequacy test (LAT)

AASB 1023 requires the inclusion of a risk margin in insurance liabilities but, does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of sufficiency of the claims provision, no such guidance exists in respect of the level of risk margin to be used in determining the sufficiency of net premium liabilities. The Company has adopted a risk margin for the purpose of the liability sufficiency test to produce a probability of sufficiency of 75% (2018: 75%), which is consistent with APRA requirements in respect of total insurance liabilities, while 80% (2018: 80%) probability of sufficiency is adopted in determining the outstanding claims liabilities.

The application of the LAT in respect of the net premium liabilities identified a surplus of \$33,214 thousand as at 30 September 2019 (2018: surplus of \$35,339 thousand).

(e) Risk margin

The process used to determine the risk margin is explained in Note 3(c). The risk margin in expected future cash flows for future claims as a percentage of the central estimate is 8.4% (2018: 8.5%). This is the risk margin required to give a probability of sufficiency of 75% (2018: 75%) for total insurance liabilities.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 19. Outstanding claims liability

(a) Outstanding claims

	2019 \$'000	2018 \$'000
Direct business		
Gross		
Central estimate	170,933	132,897
Discount to present value	(967)	(1,888)
Total gross claims - discounted	169,966	131,009
Claims handling costs - discounted	8,304	7,077
Gross risk margin - discounted	13,169	14,429
Total claims handling costs and risk margins	21,473	21,506
Total gross outstanding claims liability - discounted	191,439	152,515
Current - gross outstanding claims - discounted	160,342	120,529
Non-current - gross outstanding claims - discounted	31,097	31,986
Total gross outstanding claims liability - discounted	191,439	152,515

(b) Risk margin

The process used to determine the risk margin is explained in Note 3(c). The probability of sufficiency at 30 September 2019 is 80% (2018: 80%). The risk margin included in net outstanding claims is 8.1% of the net central estimate (2018: 8.5%).

	2019		2018	
	Home and contents	Consumer credit insurance	Home and contents	Consumer credit insurance
Risk margins applied				
Direct	7.8%	11.1%	8.2%	11.3%
Overall margin	7.8%	11.1%	8.2%	11.3%

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 19. Outstanding claims liability (continued)

(c) Reconciliation of movement in net discounted outstanding claims liability

		2019 \$'000		2018 \$'000
	Gross	Reinsurance and other recoveries	Net	Net
Direct business				
Balance at beginning of the year	152,515	(37,240)	115,275	131,311
Increase in net claims incurred current accident year	375,768	(57,342)	318,426	227,032
Discount movement in prior accident years	1,496	(136)	1,360	547
Risk margin movement in prior accident years	(7,897)	2,611	(5,286)	(7,036)
Other movements in prior accident years	(5,442)	(224)	(5,666)	5,603
Included claims recognised in the statement of profit or loss and other comprehensive income	363,925	(55,091)	308,834	226,146
Net claim payments	(325,001)	29,362	(295,639)	(242,182)
Balance at end of the year	191,439	(62,969)	128,470	115,275

(d) Claims development table

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the six most recent accident years.

		Accident year						
	Prior	2014	2015	2016	2017	2018	2019	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Ultimate claims cost estimate:								
At end of accident year		160,473	241,631	213,597	254,624	207,026	291,010	
One year later		153,027	241,351	196,068	254,906	199,579	-	
Two years later		153,862	241,189	195,715	253,204	-	-	
Three years later		154,536	242,870	197,014	-	-	-	
Four years later		155,267	243,106	-	-	-	-	
Five years later		156,083	-	-	-	-	-	
Current estimate of ultimate claims cost estimate:	1,374,927	156,083	243,107	197,014	253,204	199,579	291,010	2,714,924
Cumulative payments	1,372,692	154,202	241,420	194,091	248,599	188,435	204,132	2,603,571
Undiscounted central estimate	2,235	1,881	1,687	2,923	4,605	11,144	86,878	111,353
Discount to present value	34	29	20	41	59	123	480	786
Discounted central estimate	2,201	1,852	1,667	2,882	4,546	11,021	86,398	110,567
Claims handling expenses	228	135	144	221	386	797	6,393	8,304
Net risk margin	428	398	243	556	780	1,358	5,836	9,599
Net outstanding claims liabilities	2,857	2,385	2,054	3,659	5,712	13,176	98,627	128,470

The reconciliation of the movement in outstanding claims liabilities and the claims development table have been presented on a net of reinsurance and other recoveries basis to give the most meaningful insight into the impact on the statement of profit or loss and other comprehensive income.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 20. Provisions

	2019 \$'000	2018 \$'000
Provisions for:		
Remediation	14,279	5,747
Non-lending losses	2,850	4,928
Total provisions	17,129	10,675

Movement in provision during the financial year is set out below:

	Remediation \$'000	Non-lending losses \$'000	Total \$'000
Balance at 1 October 2017	-	-	-
Additions	5,747	4,928	10,675
Balance at 30 September 2018	5,747	4,928	10,675
Additions	8,532	-	8,532
Utilisations	-	(2,078)	(2,078)
Balance at 30 September 2019	14,279	2,850	17,129

Note 21. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Note	2019 \$'000	2018 \$'000
Amounts recognised in the statement of profit or loss and other comprehensive income			
Intangible assets		2,057	1,576
Gross deferred tax liabilities		2,057	1,576
Set-off deferred tax assets and deferred tax liabilities	15	(2,057)	(1,576)
Net deferred tax liabilities		-	-

	Intangible assets \$'000	Total \$'000
Movements		
Balance at 1 October 2017	1,020	1,020
Recognised in the statement of profit or loss and other comprehensive income	556	556
Balance at 30 September 2018	1,576	1,576
Recognised in the statement of profit or loss and other comprehensive income	481	481
Balance at 30 September 2019	2,057	2,057

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Financial risk management

An integrated risk management framework has been implemented to bring together the various component parts of the risk framework. The framework is the totality of the systems, processes, structures, policies and people involved in identifying, assessing, treating and monitoring risks. The Risk Management Strategy (RMS) sets out the strategy to be adopted by the Company for managing risk and is a key element of the risk management framework. The framework overall, including the RMS, incorporates the requirements of APRA's Prudential Standard for Risk Management (CPS220).

The Company operates within, and is governed by the Westpac Group risk management framework, and aligns with Westpac Group risk appetite, policies and frameworks. These are designed to manage risk effectively and efficiently. Adherence to these frameworks is essential to ongoing management of its risks.

Governance Framework

The Company's governance framework overseeing effective risk management consists of:

- Defined roles and responsibilities for the Board, its committees and various management committees and forums that oversee particular aspects of the business;
- Various governance-related documents setting out the policies, practices and procedures adopted by the Company to ensure it operates in accordance with prudential requirements and good governance principles; and
- A dedicated risk management function that supports the risk management framework and execution of the Company's RMS.

The Company has adopted the Westpac Group Delegated Authority Policy Framework. This framework enables management to make decisions which are not reserved for the Board. The Board has delegated certain risk management responsibilities to the following committees.

Board Committees

Insurance Board Audit Committee

The primary role of the Committee is to assist the Board by providing an objective, non-executive review of the effectiveness of the Board's financial reporting and financial risk management framework. Ultimate responsibility for the integrity of the Company's financial reporting and audit rests with the Board. The duties of the Committee include:

- Oversight of statutory reporting requirements, financial reporting requirements, professional accounting requirements and internal and external audit and make recommendations to the Board;
- Review and assess the integrity of the financial statements and the financial reporting framework;
- Review regular reports from management and external auditor regarding the Company's internal financial controls and compliance, disclosure, legal and regulatory requirements;
- Review the policies and procedures for employees to submit, confidentially, information about accounting, internal control, compliance, audit and other matters about which an employee has concerns, and establish a process for ensuring employees are aware of the policies and for dealing with such matters; and
- Consider advice from the Appointed Actuary in respect of the valuation of insurance liabilities, including an assessment of the overall financial condition of the Company.

Insurance Board Risk Committee

The Board is ultimately responsible for the integrity of the risk and compliance processes. The role of the Committee is to assist the Board discharge its responsibilities by having oversight of the implementation and operation of the risk management framework.

The duties of the Committee include:

- Oversight of the risk management frameworks and make recommendations to the Board;
- Oversight of senior management's implementation of the Insurance Risk Management Strategy;
- Review the compliance processes that are in place to anticipate and effectively manage the impact of regulatory change on operations;
- Oversee for reporting or recommendation to the Board the Internal Capital Adequacy Assessment Process (ICAAP) and in doing so review the stress testing outcomes; the target capital ranges for regulatory capital; and review and monitor capital levels for consistency with the Company's risk appetite; and
- Advising the Board on current and future risk appetite, capital strength and Risk Management Strategy.

Westpac Board Remuneration Committee

The Board has delegated remuneration matters to the Westpac Board Remuneration Committee. The primary role of this Committee is to review and make recommendations to the Westpac Board that ensure coherent remuneration policies and practices that fairly and responsibly reward individuals having regard to performance, the Risk Management Framework, the law and the highest standards of governance.

The Appointed Actuary

The Appointed Actuary is responsible for providing a report on the financial condition of the Company (FCR) to the Board. The report is considerate of current solvency and capital adequacy, together with consideration of a range of factors such as the premium rates, policy conditions, reinsurance arrangements, risks faced by the insurer and other related matters.

The Appointed Actuary also provides advice in respect of the value of the insurance liabilities calculated in accordance with APRA Prudential Standards.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Financial risk management (continued)

Approach to risk management

The Company has adopted the Three Lines of Defence model to ensure it practices holistic end-to-end management of risk. The Company's Three Lines of Defence approach is designed on a functional basis and covers all employees. The delineation of responsibilities between the Three Lines of Defence are set out below.

1st Line of Defence – Risk identification, risk management and self-assurance

The First Line proactively identifies, evaluates, owns and manages the risks in their business/domain. It also ensures that business activities are within approved risk appetite and policies. This accountability cannot be abrogated. The First Line of defence is accountable for 'self-certification'. In managing its risk, the First Line is required to establish and maintain appropriate governance structures, controls, resources and self-assessment processes, including issue identification recording and escalation procedures.

2nd Line of Defence – Establishment of risk management frameworks and policies and risk management oversight

The Second Line sets frameworks, controls (including policies and limits), and standards for use across the Company. They can require remediation or cessation of activity where these are not adhered to. Their approach will be risk-based and proportionate.

The Second Line reviews and challenges First Line activities and decisions that may materially affect the Company's risk position, and independently evaluates the effectiveness of the First Line's controls, monitoring, compliance, and monitors progress towards mitigating risks. In addition, the Second line provides insight to the First Line, assisting in developing, maintaining and enhancing the business' approach to risk management.

The Second Line understands and reports the aggregated risk profile of the business to ensure end-to-end oversight of risk and is required to endorse the acceptance of any risks outside of the business' risk appetite before being considered by the Board

3rd Line of Defence – Independent assurance

The Third Line is an independent assurance function that evaluates and opines on adequacy and effectiveness of both First and Second Line risk management approaches and tracks remediation progress, with the aim of providing the Board, and Senior Executives, with comfort that governance, risk management and internal controls are operating effectively.

Financial Risks

(a) Insurance risk

Insurance risk is the risk of claims costs being greater than expected, due to a failure in product design, underwriting, reinsurance arrangements or an increase in severity and frequency of insured events. This exposure is transferred to the Company through its underwriting process.

The primary insurance products underwritten by the Company are home and contents insurance and consumer credit insurance. These are regular or upfront premium products where benefits are payable under certain specified criteria including but not limited to, damage to property, redundancy, personal illness or injury.

All contracts are written within Australia.

Through its insurance contracts the Company is exposed to the possibility of loss due to uncertainty in the frequency of the occurrence of the insured event as well as the severity of the resulting claim.

The determination of the amounts that the Company will ultimately pay for claims arising under insurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- incidence of catastrophic events close to the balance sheet date;
- changes in the legal environment including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

To mitigate its exposure to insurance risk the Company has embedded a number of key controls in its operations.

The design, development and distribution of products carrying insurance risk is managed so that policy wording and promotional materials are clear. The Company undertakes comprehensive market research to capture and understand potential risks associated with the insurance product. Product prices are set through a process of financial analysis, including a review of previous experience and specific product design features. All product design features and pricing are reviewed by the Company's legal, risk and actuarial functions.

The Company's underwriting strategy is to maximise opportunities for diversification of risks across the classes of business and geographical locations within which the Company operates. Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff.

Claims are managed through a dedicated claims management team, with a formalised claims acceptance process, including claims acceptance limits and appropriate training of staff. Claims experience is regularly assessed and appropriate reserves are established to reflect up to date experience and any anticipated future events. The Appointed Actuary provides advice on the insurance liabilities inclusive of a risk margin which aligns the reserves held to the probability of sufficiency approved by management and the Board. The advice of the Appointed Actuary is subject to triennial external peer reviews and annual external audit.

In addition, the sufficiency of the outstanding claims provision and the unearned premium liability are subject to an actuarial review by the Appointed Actuary.

The Company also reinsures (cedes) insurance risk to manage its exposure to large claims which lie outside predetermined risk tolerance limits, and to reduce the Company's exposure to catastrophes. Reinsurance arrangements are regularly assessed to determine their ongoing effectiveness based on current exposures, historical losses and potential future losses.

The sensitivity of profit after tax and equity to insurance risk arising from changes in key outstanding claims variables before and after reinsurance is measured in Note 4(c).

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Financial risk management (continued)

(a) Insurance risk (continued)

Concentration of insurance risk

The Company has exposure to insurance risk in the home and contents and consumer credit insurance markets within Australia.

The table below illustrates the Company's exposure to each class of business:

	2019 \$'000	2018 \$'000
Premium revenue		
Home and contents	513,205	488,750
Consumer credit insurance	30,460	38,813
	543,665	527,563

In addition to the specific risks insured, each line of business could expose the Company to losses that could arise from natural and man-made catastrophes. Policies and processes for monitoring exposure to catastrophe risk are as follows:

Risk	Source of concentration	Risk management measures
Natural catastrophes	Properties concentrated in regions that are subject to: <ul style="list-style-type: none"> - Earthquakes - Bushfires - Cyclones - Hail storms - Floods 	Aggregated risks are modelled by postcode using commercially available catastrophe models. Based on the probable maximum loss per the models, catastrophe reinsurance is purchased to limit exposure to any single event.
Economic downturn / Pandemic	Consumer Credit Insurance (CCI) <ul style="list-style-type: none"> - Unemployment claims - Pandemic 	An economic downturn or pandemic for CCI is considered as part of the APRA Insurance Concentration Risk Charge (ICRC) calculation. The calculated probable maximum loss (PML) for such an event is less than the ICRC required under the natural peril vertical requirement. Hence, the Company manages this insurance concentration risk by holding sufficient capital against the PML in the event of a severe economic downturn or pandemic.

Development of claims

There is a possibility that changes may occur in the estimate of the Company's obligations at the end of a contract period. The tables in Note 19(d) show the estimates of total claims outstanding for each accident year at successive year ends.

Asset liability management

The investments for the Company are governed by a Board approved investment policy. The investment objective of the Company is to optimise returns subject to there being sufficient liquidity for the business to meet its obligations to policyholders in a timely manner. The investment policy specifies the minimum counterparty ratings allowed and details the approach adopted by management for assets backing liabilities in the Company. This policy provides enough flexibility for the Company to manage liability mismatch risk through the purchase of assets that match, as closely as possible, the duration of the liabilities, with rebalancing occurring as required. This risk is limited by the short-tail nature of the company's liabilities.

(b) Credit risk

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations to the Company or the broader Westpac Group. The Company is subject to the Westpac Credit Risk Management Framework. This framework defines what constitutes credit risk for the Company and provides the basis for managing credit risk. A key driver of credit risk is in the Company's reinsurance activities, particularly counterparty exposure and counterparty performance management.

The following policies and procedures established through the Risk Management Strategy, Credit Risk Management Framework and Reinsurance Management Strategy are used to mitigate the Company's exposure to credit risk.

- (i) Exposures to counterparties are monitored and controlled to ensure:
 - significant deterioration in credit quality is identified;
 - credit risk management information is accurate and complete; and
 - excessive concentrations of credit risk are identified and controlled.
- (ii) Credit risk limits, counterparty exposure limits and acceptable credit quality ratings for investment assets of the Company are defined within the Credit Risk Management Framework and managed for the Company by the appointed investment portfolio managers. Compliance with these limits is monitored.
- (iii) Credit risk in respect of customer balances is actively monitored and losses incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated.
- (iv) As part of its overall risk management strategy the Company cedes a proportion of its insurance risk. While these cessions mitigate insurance risk, the recoverable from reinsurers expose the Company to credit risk. Exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored. Reinsurance is placed according to a pre-approved panel of reinsurers that have a strong credit rating.

Maximum credit risk exposure

The Company's maximum exposure to credit risk, in respect of its financial assets, without taking account of any collateral or other credit enhancements as of 30 September 2019 is \$712,984 thousand (2018: \$638,887 thousand).

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Financial risk management (continued)

(b) Credit risk (continued)

Credit quality of financial assets that are neither past due nor impaired

The following table provides information regarding the credit risk exposure of the Company. The credit quality of those financial assets that are neither past due nor impaired is shown by classifying those assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating.

30 September 2019	Neither past due nor impaired				Total \$'000	Past due and impaired \$'000	Total \$'000
	AAA \$'000	AA \$'000	A \$'000	Not rated \$'000			
Cash and cash equivalents	-	22,525	-	-	22,525	-	22,525
Financial assets measured at fair value	-	107,274	-	168,999	276,273	-	276,273
Trade and other receivables							
Premiums receivable	-	-	-	340,473	340,473	-	340,473
Other receivables	-	-	541	-	541	-	541
Amounts due from other related entities	-	-	-	237	237	-	237
Reinsurance and other recoveries receivables	16,670	18,510	37,755	-	72,935	-	72,935
	16,670	148,309	38,296	509,709	712,984	-	712,984

30 September 2018	Neither past due nor impaired				Total \$'000	Past due and impaired \$'000	Total \$'000
	AAA \$'000	AA \$'000	A \$'000	Not rated \$'000			
Cash and cash equivalents	-	11,550	-	-	11,550	-	11,550
Financial assets measured at fair value	-	105,240	-	155,191	260,431	-	260,431
Trade and other receivables							
Premiums receivable	-	-	-	324,799	324,799	-	324,799
Other receivables	-	-	687	-	687	-	687
Amounts due from other related entities	-	-	-	372	372	-	372
Reinsurance and other recoveries receivables	13,216	8,203	19,629	-	41,048	-	41,048
	13,216	124,993	20,316	480,362	638,887	-	638,887

Past due but not impaired financial assets

None of the financial assets as at 30 September 2019 and 30 September 2018 are past due but not impaired.

There are no premium debtors that have been identified as overdue by over 12 months.

There has also been no material history of default with respect to the Company's trade receivables. Amounts due from related parties are covered by existing agreements and are settled on a regular basis.

(c) Liquidity risk

Liquidity risk is the risk of being unable to fund assets and meet obligations as they fall due. The Company is subject to the Westpac Group Liquidity Risk Management Framework to provide coverage across all businesses. This framework and policies define what constitutes liquidity risk and provides the basis for managing liquidity risk. Liquidity risk management focuses primarily on ensuring sufficient cash is available to meet liabilities arising from insurance and investment policies.

The primary means the Company uses to manage liquidity risk are:

- Ensuring the investment of assets that are backing insurance liabilities are held in liquid assets that closely match the maturity of liabilities;
- Ensuring the investment of assets backing capital are held in appropriately liquid assets;
- Defining the minimum level of liquid funds at call within 48 hours to be held by the Company;
- Monitoring of liquid asset levels to ensure that holdings of liquid assets, together with other cash inflows, are sufficient to meet cash flow obligations to policyholders and other creditors; and
- Liquidity modelling is carried out which considers the Company's ability to fund under both normal conditions and during a catastrophe situation. Catastrophe event retention levels are set annually and appropriate reinsurance is placed.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity profiles

The following table summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted repayment obligations, except for outstanding claims liability, where maturity profiles are determined on the discounted estimated timing of net cash outflows:

	Up to 1 year ¹	1 to 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000
At 30 September 2019				
Trade and other payables	74,296	-	-	74,296
Reinsurance premium payables	5,219	-	-	5,219
Outstanding claims liability	160,342	25,994	5,103	191,439
	239,857	25,994	5,103	270,954
At 30 September 2018				
Trade and other payables	73,416	-	-	73,416
Reinsurance premium payables	4,768	-	-	4,768
Outstanding claims liability ²	120,529	28,289	3,697	152,515
	198,713	28,289	3,697	230,699

¹ "Up to 1 year" are all commitments which are either contractually due within the timeframe or payable on demand. The estimated timing of associated cash flows is expected within the timeframe.

² 2018 comparative amounts for outstanding claims liability have been adjusted to enhance comparability with the current year.

(d) Market risk

Market risk is the risk of an adverse impact on earnings resulting from changes in market factors such as foreign exchange rates (currency risk), interest rates (interest rate risk), commodity prices and equity prices. This includes interest rate risk – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. The main risks that the Company faces due to the nature of its investments and liabilities are interest rate and price risk.

The Company is subject to the Westpac Market Risk Management Framework. This framework defines what constitutes market risk for the Company and provides the Company with a framework for managing its market risk.

The following policies and procedures are established to mitigate the Company's exposure to market risk:

- Trading authorities and responsibilities are clearly delineated at all levels to ensure accountability;
- A structured system of limits and reporting of exposures against these exists for all trading activities; and
- Models are used to determine risk and profit/loss and are independently reviewed on a regular basis.

(i) Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shapes of yield curves.

Financial instruments with floating rate interest expose the Company to cash flow interest rate risk, whereas financial instruments with fixed rate interest expose the Company to fair value interest rate risk. The Company has invested solely in floating rate financial instruments through its holdings in cash managed trusts.

The Company is also exposed to interest rate risk on obligations arising from its insurance contracts where a 'risk free' interest rate is applied in the calculation of the outstanding claims provision.

The Company's net exposure to interest rate risk is detailed below.

Interest rate risk sensitivity analysis

The table below shows the estimated impact on the Company's profit after tax and equity as at 30 September 2019 and 30 September 2018, of a 1% reasonably possible change in interest rates with all other variables held constant.

	30 September 2019		30 September 2018	
	\$'000 Impact on profit after tax	\$'000 Impact on equity	\$'000 Impact on profit after tax	\$'000 Impact on equity
Change in variable interest rate exposure				
+100 basis points	2,092	2,092	1,904	1,904
-100 basis points	(2,092)	(2,092)	(1,904)	(1,904)

The method used in deriving sensitivity information and significant variables did not change from the previous period.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Financial risk management (continued)

(d) Market risk (continued)

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company is exposed to price risk as it holds investments in the Pandal Short Term Income Fund and the Pandal Managed Cash Fund.

The table below shows the estimated impact on the Company's profit after tax and equity as at 30 September 2019 and 30 September 2018, of a 3% reasonably possible change in market prices within Pandal Short Term Income Fund and Pandal Managed Cash Fund, with all other variables held constant.

	30 September 2019		30 September 2018	
	\$'000 Impact on profit after tax	\$'000 Impact on equity	\$'000 Impact on profit after tax	\$'000 Impact on equity
Change in variable interest rate exposure				
+300 basis points	3,549	3,549	3,259	3,259
-300 basis points	(3,549)	(3,549)	(3,259)	(3,259)

(e) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy.

The Company has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- unadjusted quoted prices in active markets for identical assets and liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for assets or liabilities, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for assets and liabilities that are not based on observable market data (unobservable inputs) (level 3).

Fair value is determined as follows:

- Cash assets at face value of the amounts deposited;
- Investments in unlisted unit trusts by reference to the prevailing redemption prices at the reporting date, which inherently includes transaction costs;
- Receivables at amortised cost less provision for impairment losses, which is the best estimate of their fair value, as they are settled within a short time; and
- Payables at amortised cost, which is the best estimate of their fair value, as they are settled within a short time.

	30 September 2019		30 September 2018	
	Level 2 \$'000	Total \$'000	Level 2 \$'000	Total \$'000
Assets				
Financial assets measured at fair value				
FirstRate Evergreen Deposit Account	107,274	107,274	105,240	105,240
Pandal Short Term Income Fund	111,730	111,730	143,408	143,408
Pandal Managed Cash Fund	57,269	57,269	11,783	11,783
Total assets	276,273	276,273	260,431	260,431

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The Company did not have any level 1 investments as at year end.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include, investment-grade corporate bonds, certain unlisted unit trusts, and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. The Company did not have any level 3 investments as at year end. There were no transfers between levels during the financial year.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Financial risk management (continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal and regulatory risk but excludes strategic risk. The Company is subject to the Westpac Operational Risk Management Framework. The framework establishes roles and responsibilities and the measurement, management, monitoring and reporting of operational risks, including risk and control management, and scenario analysis. The Company is also subject to Westpac Incident Management Policy and Westpac Issue and Action Management Policy.

The key components of the Operational Risk Management Framework are:

- Governance, Projects, Capital, Data, Acceptance, Indicators and Reporting;
- Incident, Issues and Action Management; and
- Scenario analysis and External Loss Events.

Consistent with the three lines of defence model, roles and responsibilities are documented for each line of defence.

Complementing this framework, the Company maintains a database of operational incidents. An analysis of the causes of operational incidents is used to enable the Company to implement measures to avoid or reduce future losses. The measures adopted may include revising processes, improving failed or inappropriate controls or strengthening emergency plans.

Internal capital adequacy assessment process (ICAAP)

The ICAAP is the over-arching process through which the level of capital is determined and maintained to ensure it is adequate and commensurate with the Board's risk appetite and complies with all prudential requirements. The ICAAP is a key element of, and is governed by, the Risk Management Framework.

In the course of protecting policyholder interests, the Company seeks to manage capital to ensure it is adequate to provide for the risks that arise from operations conducted by the Company. The ICAAP is an important tool that assists the Company to achieve this and provides crucial insights into the Company's approach to managing capital.

The ICAAP uses regulatory capital requirements prescribed by the Australian Prudential Regulation Authority (APRA) as the foundation upon which a target capital structure is built. The ICAAP is integrated into the Risk Management Framework. While the ICAAP is governed within the Risk Management Framework, other policies also support the ICAAP.

The Board is fundamentally responsible for the ICAAP of the Company and retains responsibility for approval and implementation of the process. The Board Risk Committee, Consumer Division Chief Executive Officer, Appointed Actuary, Consumer Division Chief Financial Officer, Consumer Division Chief Risk & Compliance Officer, the GM Insurance supported by Senior Management play key roles, assisting the Board in applying the ICAAP to the Company.

Capital and regulatory risk

As an APRA authorised general insurance entity that conducts insurance business in Australia, the Company is subject to a risk-based approach for measuring and holding the required regulatory level of capital, referred to as the Prudential Capital Requirement (PCR). The PCR is the minimum level of capital that APRA deems must be held to meet policyowner obligations and consists of the Prescribed Capital Amount (PCA) and any supervisory adjustment determined by APRA. The Company uses APRA's standardised method for calculating the PCA in accordance with the relevant Prudential Standards and holds regulatory capital of the PCA plus a Target Surplus to ensure the Company has sufficient assets to maintain its PCA under adverse potential scenarios including prolonged periods of underwriting losses, catastrophe events and/or events involving business interruption.

The Company's capital position is monitored on a regular basis and reported to the Board quarterly.

Regulatory prescribed capital amount and compliance

The Company's capital base, PCA and PCA coverage is disclosed in the following table:

	2019	2018
	\$'000	\$'000
Capital adequacy		
Tier 1 capital		
Contributed equity	31,500	31,500
Dividends paid	-	(59,000)
Retained earnings at the beginning of the financial year	121,787	119,800
Profit attributable to shareholders	13,702	60,987
Technical provisions in excess of those required by GPS320	24,557	26,132
Regulatory adjustments in calculation of capital base	(15,641)	(15,426)
Total capital base	175,905	163,993
Prescribed capital amount (PCA)	107,947	108,841
Prescribed capital amount coverage	1.63	1.51

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 23. Share capital

	2019	2018
	\$'000	\$'000
Share capital		
Ordinary share capital, fully paid	31,500	31,500
Total share capital	31,500	31,500

	\$'000	\$'000
Movements in share capital		
Opening balance	31,500	31,500
Issue of ordinary shares	23,000	-
Share buy back	(23,000)	-
Closing balance	31,500	31,500

	2019	2018
	No.	No.
Ordinary shares at beginning of the year	31,500,000	31,500,000
Issue of ordinary shares	23,000,000	-
Share buy back	(23,000,000)	-
Ordinary shares at end of the year	31,500,000	31,500,000

The Company issued new share capital to its parent, Westpac Financial Services Group Limited, of \$23,000 thousand on 28 February 2019. This was subsequently repatriated on 26 September 2019.

Ordinary shares entitle the holder to participate in dividends and, in the event of the Company winding up, to a share of the proceeds in proportion to the number of and amount paid on the shares held.

Each ordinary share entitles the holder to one vote, either in person or by proxy, at a shareholder meeting.

The Company's capital management objectives are to:

- ensure sufficient capital resource to support the Company's business and operational requirements;
- safeguard the Company's ability to continue as a going concern; and
- maintain sufficient capital to exceed externally imposed capital requirements.

Periodic reviews of the Company's capital requirements are performed to ensure the Company is meeting its objectives. Capital is defined as share capital plus reserves.

Note 24. Dividends

	2019	2018
	\$'000	\$'000
Ordinary dividend of \$1.65 per fully paid share paid in June 2018	-	52,000
Ordinary dividend of \$0.22 per fully paid share paid in December 2017	-	7,000
Total dividends	-	59,000

Note 25. Economic dependency

The normal trading activities of the Company depend significantly on the product sales generated by the distribution channels of the ultimate parent entity, Westpac and its controlled entities.

Note 26. Auditor's remuneration

The auditor's remuneration for audit of the financial statements of \$123,840 (2018: \$117,943) was paid by the ultimate parent entity, Westpac.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 27. Related party disclosures

(a) Parent entities

Westpac Financial Services Group Limited is the immediate parent entity. Westpac Banking Corporation is the ultimate parent entity.

(b) Key management personnel (KMP)

Key management personnel are those, who directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the Company. This includes all Executive and Non-Executive Directors.

	2019 \$	2018 \$
Remuneration of KMP		
Short-term benefits	843,010	720,331
Post-employment benefits	54,055	41,384
Other long-term benefits	8,086	6,765
Share-based payments	220,046	130,257
Total remuneration of KMP	1,125,197	898,737

Key management personnel remuneration was paid by the relevant employing entities within the Westpac Group, with the exception of share-based payments which consist of shares, options and other equity instruments issued by the ultimate parent entity. In addition to the remuneration disclosed above, the Directors of the Company also receive remuneration for their role as key management personnel of related responsible entities and trustee companies. This remuneration is separately disclosed in the financial statements of those responsible entities.

(c) Transactions with related parties

The following transactions occurred with related parties:

Type of transaction	Class of related party	Note	2019 \$	2018 \$
Interest income	Ultimate parent entity	7	126,449	157,242
Distribution from unit trust	Other related entities	7	4,878,589	4,302,479
Insurance commissions expense	Other related entities		65,438,352	62,341,951
Service and management fees revenue	Other related entities	7	1,484,151	1,859,369
Service and management fees expense	Ultimate parent entity		42,918,160	36,455,211
Service and management fees expense	Other related entities		45,367,645	43,752,923
Dividends paid	Parent entity	24	-	59,000,000

(d) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties.

Balance type	Class of related party	Note	2019 \$	2018 \$
Cash and cash equivalents	Ultimate parent entity	29(a)	22,524,795	11,550,197
Financial assets measured at fair value	Other related entities	10	168,998,721	155,190,389
Trade and other receivables	Other related entities	11	236,835	371,897
Trade and other payables	Ultimate parent entity	17	13,092,003	11,145,885
Trade and other payables	Other related entities	17	45,352,698	43,642,747
Current tax liabilities	Ultimate parent entity	17	616,817	2,004,989

(e) Terms and conditions

All transactions have been made on normal commercial terms and conditions.

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 28. Offsetting financial assets and financial liabilities

Financial assets and liabilities are presented net in the balance sheet when the Company has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The gross assets and liabilities behind the net amounts reported in the balance sheet are disclosed in the table below.

30 September 2019	Note	Effects of offsetting on balance sheet		Net amounts reported on the balance sheet \$'000
		Gross amounts \$'000	Amounts offset \$'000	
Financial assets:				
Trade and other receivables	11	341,331	80	341,251
Financial liabilities:				
Trade and other payables	17	74,376	80	74,296

30 September 2018	Note	Effects of offsetting on balance sheet		Net amounts reported on the balance sheet \$'000
		Gross amounts \$'000	Amounts offset \$'000	
Financial assets:				
Trade and other receivables	11	325,975	117	325,858
Financial liabilities:				
Trade and other payables	17	73,533	117	73,416

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 29. Notes to the cash flow statement

	2019	2018
	\$'000	\$'000
(a) Reconciliation of cash and cash equivalents		
Cash with ultimate parent entity	22,525	11,550
Cash and cash equivalents at end of the year	22,525	11,550
(b) Reconciliation of net cash provided by/(used in) operating activities to net profit for the year is set out below:		
Net (loss)/profit for the year	13,702	60,987
Adjustments		
Amortisation of intangible assets	1,605	1,605
Interest and distribution from financial assets measured at fair value reinvested	(7,009)	(6,458)
Unrealised (gains)/losses on financial assets measured at fair value	(234)	383
Changes in operating assets and liabilities:		
Decrease/(increase) in assets		
Trade and other receivables	(15,393)	(13,537)
Reinsurance and other recoveries receivable	(31,887)	(4,925)
Deferred levies and charges	(991)	(3,114)
Deferred acquisition costs	313	4,887
Deferred tax assets	(1,823)	(2,520)
Other assets	(48)	2
Increase/(decrease) in liabilities		
Trade and other payables	2,268	4,941
Current tax liabilities	(1,388)	(1,540)
Provisions	6,454	10,675
Reinsurance premium payables	451	(80)
Unearned premium liability	14,630	2,093
Outstanding claims liability	38,924	(13,471)
Net cash provided by/(used in) operating activities	19,574	39,928
(c) Reconciliation of liabilities arising from financing activities		
There are no liabilities arising from financing activities.		

WESTPAC GENERAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 30. Contingent liabilities and commitments

Regulatory actions

Regulators and other bodies routinely conduct investigations and reviews involving the financial services sector, both in Australia and overseas. These investigations and reviews may consider a range of subject matters, and in Australia, a number of investigations and reviews have recently considered, and continue to consider, potential misconduct in credit and financial services.

Domestic regulators such as ASIC, APRA, ACCC, AUSTRAC, the OAIC and the ATO are also currently conducting investigations and reviews and inquiries (some of which are industry-wide) that involve or may involve the Westpac Group (the Group) in the future. These investigations and reviews are separately considering a range of matters, including matters such as ongoing advice services fees, responsible lending, residential mortgages, credit portfolio management, consumer credit insurance, privacy and information governance, the provision of financial advice, competition law conduct, anti-money laundering and counter-terrorism financing processes and procedures, and financial markets conduct.

The Group has also received various notices and requests for information from regulators as part of both industry-wide and the Group-specific investigations and reviews and inquiries.

These investigations and reviews and inquiries, which may be conducted by a regulator, and in some cases also an external third party retained either by the regulator or by the Group (including where a matter has been self-identified by the Group), may result in litigation (including class action proceedings against the Group), fines, imposition of additional capital, civil or criminal penalties, revocation, suspension or variation of conditions of relevant regulatory licences or other enforcement or administrative action being taken by regulators or other parties. An assessment of the likely cost to the Company of these investigations and reviews and actions has been made on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated.

Internal reviews and remediation

The Group is currently undertaking a number of reviews to identify and resolve prior issues that have the potential to impact our customers and reputation. These internal reviews have identified, and may continue to identify, issues in respect of which we are, or will be, taking steps to put things right (including in relation to areas of industry focus such as compliance with responsible lending obligations and the way some product terms and conditions are operationalised) so that our customers are not at a disadvantage from certain past practices. By undertaking these reviews we can also improve our processes and controls. An assessment of the Company's likely loss has been made on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated. Contingent liabilities may exist in respect of actual or potential claims, compensation payments and/or refunds identified as part of these reviews.

Australian Financial Complaints Authority

Contingent liabilities may also exist in relation to customer complaints brought before the Australian Financial Complaints Authority (AFCA). AFCA has the power to make determinations about complaints and can award compensation up to certain thresholds. AFCA has a broader jurisdiction than previous dispute resolution bodies which it has replaced and, up until 30 June 2020, can also consider customer complaints dating back to 1 January 2008.

As part of the alliance agreement between Westpac, the Company and Allianz Australia Limited (Allianz), commencing from the 2016/2017 financial year, the Company and Allianz have a commitment to contribute \$3.0 million each, per contract year (or such other amount as may be agreed with Allianz), to the implementation of agreed system and product development and enhancement projects which will benefit both the Company and Allianz. The Company does not have any other contingent liabilities or commitments.

Note 31. Subsequent events

No matters have arisen since the year ended 30 September 2019 which is not otherwise dealt with in this report, that has significantly affected or may significantly affect the operations of the Company, the results of its operations or the state of affairs of the Company in subsequent periods.

Note 32. Accounting policies relating to prior years

Due to the adoption of AASB 9, the accounting policies relating to the accounting for some financial instruments and related balances have changed. The policies applicable to the current year are provided in the relevant note to the financial statements above. As prior comparative years have not been restated, the accounting policies detailed below reflect the policies applicable to financial years prior to 2019 based on AASB 139. Refer to Note 1 for further information.

Trade and other receivables (Note 1c(iv)) / (Note 1e(i)(d))

A receivable is impaired when there is objective evidence that receivables may not be recoverable. An impairment charge is recognised when the financial impact of the non-recoverable receivables can be reliably measured. At each balance sheet date, the Company assesses whether any receivables are impaired, recognising an impairment charge if required.

The impairment charge is recognised in the statement of profit or loss and other comprehensive income with a corresponding reduction of the carrying value of the receivables through an offsetting provision account.

In subsequent periods, objective evidence may indicate that an impairment charge should be reversed. The impairment charge is reversed in the statement of profit or loss and other comprehensive income of that future period and the related provision for impairment is reduced.

WESTPAC GENERAL INSURANCE LIMITED

DIRECTORS' DECLARATION

For the year ended 30 September 2019

In the Directors' opinion:

- a. the financial statements and notes for the year ended 30 September 2019 are in accordance with the Corporations Act 2001, including :
 - (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 30 September 2019 and its performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) includes a statement that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.



Director



Director

Sydney 11 / 12 /2019



Independent auditor's report

To the members of Westpac General Insurance Limited

Our opinion

In our opinion:

The accompanying financial report of Westpac General Insurance Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 30 September 2019 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 September 2019
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 September 2019, but does not include the financial report and our auditor's report thereon.



Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

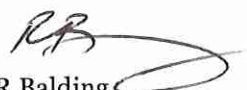
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf.

This description forms part of our auditor's report.


PricewaterhouseCoopers


R Balding
Partner

Sydney
11 December 2019